

Cubist Pharmaceuticals Inc. Expansion of Existing Operations Lexington Massachusetts Fiscal Impact Analysis

July 14, 2009

1.0 Overview.

Cubist Pharmaceuticals of Lexington Massachusetts has occupied predominately laboratory and research space at 65 Hayden Avenue in Lexington since 2001. Cubist is now proposing to expand on site by adding approximately 104,000 square feet of new research and development space as described in its June 26th 2009 Plan submission to the Lexington Planning Board; i.e. a vertical expansion of the existing 65 Hayden Avenue building. The existing 65 Hayden Avenue is an established and successful commercial development. The proposed extension is intended to complement the laboratory and research characteristics of the existing facilities and will be constructed within the zoning and property boundaries of the existing use.

The objective of this analysis is to illustrate the estimated net fiscal outcome of the Cubist Pharmaceutical proposal. For the purposes of this analysis we have used the current tax rate for commercial properties in Lexington and Fiscal Year 2010 operating budget data as approved by the most recent Town Meeting. In general terms, this analysis compares the estimated annual gross municipal revenue to the estimated annual municipal service cost associated with the proposal. Accordingly, this analysis will estimate the annual net fiscal loss or gain (fiscal profile) associated with Cubist proposal. The estimated fiscal profile will be expressed in terms of a municipal cost to revenue ratio and also as an annual net dollars loss or gain. As will be noted in more detail in the sections below, the Cubist proposal will result in a strong positive net fiscal benefit for the Town of Lexington.

2.0 Summary of Methodology

Municipal service cost associated with commercial use is almost always significantly lower than municipal service costs associated with residential uses since there are no education costs, which usually represent 55% to 65% of municipal operating budgets in Massachusetts. Further, many traditional maintenance oriented services such as road maintenance, lighting, trash collection, and snow plowing are privately provided by self contained commercial endeavors like Cubist. Accordingly, added or traditional Department of Public Works costs are minimal or non-existent. Further, as in many

communities, Lexington the annual municipal service costs related to water and sewer services are addressed via enterprise accounts which essentially create a pay as you use system and do not impact the property tax resources. Finally, short term project review and management costs associated with the building department or planning department are addressed as either permit fees or peer review fees paid to the Town of Lexington and as such do not figure in the analysis of on-going project service costs.

Relative to the Cubist proposal, we find that the primary source of additional municipal service cost relates to public safety services (police and fire). To estimate the potential increase in public safety costs this report examined the current public safety service cost associated with commercial use in Lexington and assigned a pro-rata share to the proposed new building (see Appendix 1). The revenue estimate component of this analysis was constructed by estimating the assessed value of the proposal at project stabilization. This estimate was based on three factors, the current value of property at 65 Hayden Street, the nature of the proposed expansion, and discussions with the Town's commercial property assessor Mr. Robert Lent.

The comparison of the estimated annual service costs to the estimated gross property taxes at project stabilization generates the estimated net fiscal profile of the proposal. The estimated net fiscal profile is expressed in terms of current dollars and as a ratio of cost to revenue. It is my position that the cost to revenue ratio is the more important number for the Town's consideration since over time cost and revenues will fluctuate (usually by relatively small amounts) but if a cost to revenue ratio is strongly positive the proposal can be said to exhibit positive and sustainable fiscal characteristics and therefore represent a long term fiscal benefit for the community.

3.0 Summary of Findings

The Cubist proposal:

- **Will generate approximately \$591,000 in gross annual property taxes.**
- **Will generate an annual *net* fiscal benefit of approximately \$499,000 and has a cost to revenue ratio of 0.16. Accordingly, 84 cents of every revenue dollar generated will accrue as a net fiscal benefit.**
- **Wenerate approximately \$300,000 in construction permit fees over a period of 12 to 18 months.**
- **Will expand Lexington's total assessed valuation by approximately \$23.4 million dollars at project stabilization (current dollars).**
- **Will provide a strong positive net fiscal benefit that will be sustainable for the long term.**

4.0Municipal Service Cost

Table 1 below illustrates the estimated impact of the Cubist proposal on Lexington's Police and Fire Departments. There are a number of methods an analyst can use to estimate the fiscal cost of commercial development. For Cubist we have selected a departmental specific approach since most departments will not incur measurable long term annual cost. Accordingly, we have applied the departmental cost per land use type methodology as derived from the Fiscal Impact Handbook by Burchell and Listokin. This approach assigns estimated service cost to municipal operating budgets by department, and in this case the identified and departments and police and fire services (see Appendix 1 for further details).

To employ the above noted estimating technique it is necessary to know the current amount of commercial real estate in the community and the percent of expansion represented by the proposal. The Town of Lexington currently has approximately 4 million square feet of commercial and industrial space¹. Table 1 below illustrates the current police and fire services budgets and using the technique noted above estimates the service cost assigned to commercial uses.

Table 1 Estimated Service Costs for Police and Fire Services

Department	FY10 Budget	% currently assigned for commercial use at 35%
Police	\$ 5,269,000	\$1,844,000
Fire	\$ 4,871,000	\$1,705,000
Totals	\$10,140,000	\$3,549,000

As indicated in Table 1 above, as much as 35% of Lexington's public safety budget (\$3,539,000) is associated with current commercial uses and the associated traffic management impacts. As indicated in Appendix 1, commercial use can generate a significantly higher service cost percentage than 35% relative to public safety budgets. However, it is important to note that the high end of the cost range is associated with regional retail shopping centers which generate a large and sustained demand on local police forces. Conversely, office and research parks are at the lower end of the scale due to the essentially self contained nature of the use and the significantly less traffic generated on a square foot of development basis. Further, the Cubist proposal is a vertical addition to an existing low rise building; accordingly it will not generate a new geographical service area that could result in a shift public safety service districts. Therefore, I believe it is appropriate to use the lower end of the scale for an extension of an existing well established research facility.

1. Lexington Master Plan 2002 records 3.8 million square feet.

Cubist will add 104,000 square feet of floor space to the total commercial area of the Town of Lexington or a 2.6% expansion of commercial space. Accordingly, a 2.6% expansion of public safety costs will generate approximately \$92,000 per year of additional public safety based on the estimated service cost of \$3,549,000 for all commercial uses and associated traffic management.

Based on my experience with fiscal impact analyses in Eastern Massachusetts I believe the above noted service cost estimate is conservative and represents the high end of the service cost range for the proposal in question. Application of general models for service cost tend not to fully take into account the particulars of the site. In this instance, the excellent highway access and essentially established nature of the site and community are undervalued. However, to provide the Town of Lexington with a fiscally cautious service cost estimate I have used the estimated cost estimate above in this cost to revenue analysis.

5.0 Revenue Generation and Net Fiscal Impact

In terms of the revenue estimate, based on my discussions with the Town's commercial assessor, I am applying an estimated assessed value per square foot of \$225. (Please note this is my estimate and in no manner represents an official Town position). Accordingly, the proposed 104,000 addition to 65 Hayden Avenue facilities will generate an additional assessed value of approximately \$23,400,000. ***Given the current \$25.27 per \$1,000 commercial tax rate the Cubist proposal will generate approximately \$591,000 in annual property taxes at project stabilization.***

The proposal will not likely generate personal property taxes since the primarily laboratory and research equipment will most likely be exempt from local personal property taxes. Therefore the estimated \$591,000 in property taxes at project stabilization represents the total annual estimated revenue stream. However, if at a later date Cubist decides to build structured parking for the newly expanded 65 Hayden I would estimate a taxable value of approximately \$500 per space. Therefore, a 150 car facility would have a tax value of approximately \$75,000. However, since no structured parking is contemplated at the time of this writing the additional taxable value is not included in Table 2 below.

Table 2 below illustrates the anticipated net fiscal impact of the proposal

Table 2. Estimated Net Fiscal Impact

Cubist Proposal	Estimated Annual Revenue	Estimated Annual Service Cost	Estimated Net Fiscal Benefit	Cost to Revenue Ratio
104,000 square feet; Lab/ Research use.	\$591,000	\$92,000	\$499,000	0.16

As shown in Table 2, the Cubist proposal will generate a net annual fiscal benefit of approximately \$499,000 (current dollars). The proposal has a cost to revenue ratio of 0.16 meaning that for every dollar of revenue received it will cost the Town of Lexington approximately 16 cents to provide municipal services. The remaining 84 cents of every revenue dollar is net revenue that can be applied to a variety of municipal purposes. It has been my experience over the past 15 years that a projected cost to revenue ratio may vary from 1% to 10 % (positive or negative directions) from year to year depending on background economic conditions. In this instance the strongly positive cost to revenue ratio (0.16) clearly indicates that the strong positive fiscal profile will be sustainable for the long term and that the proposal will always be an important net fiscal generator for the town of Lexington.

The strong fiscal benefit noted above will commence at project stabilization, essentially project completion and occupancy. Depending on the permitting and construction schedule, project stabilization should occur between 24 and 30 months from the current date. However, as the project is undertaken and improvements are made the site will generate some level of property taxes based on the estimated value of the improvements. The “interim” tax value will be less than the stabilized tax value.

6.0 Building and Construction Fees

The building and associated permit fees are approximately \$15/\$1,000 of construction value and will be paid as the development is constructed over a 12 to 18 month period. Assuming said construction period and a construction cost of \$20,000,000 (note: because the Cubist proposal represents a vertical addition the building foundation costs are minimized) we would anticipate construction fees of approximately \$300,000 over an 18 month period. The total fees will cover any costs associated with the building department overview and management for this expansion of an existing building.

7.0 New Growth Revenues

In Massachusetts, new growth (the initial taxable year of new development) is not calculated as part of total assessed valuation and therefore is not subject to the 2.5 % tax levy limit. Therefore, taxes generated by new development can be applied directly to local revenue base for the initial year of operation, as new growth revenue. This feature of the Massachusetts taxation regulations provides additional, albeit, short term fiscal benefit to a community.

In this instance the proposal will generate approximately \$23 million dollars in new growth assessed value.

8.0 Concluding Comments

The strong positive fiscal profile of the Cubist proposal is a direct function of the strong taxable value associated with laboratory and research space in suburban Boston and the region in general, coupled with the relatively low municipal impact nature of an

expansion of an existing building. The proposal in addition to augmenting the Town's total assessed valuation in a strongly positive manner should also augment the value of the Cubist site as a location for laboratory and research use and promote a the long term use of the site for high end uses. The magnitude of the positive cost to revenue ratio strongly indicates that the net positive profile of the proposal will be sustainable in the long term.

While difficult to quantify at this juncture the proposed expansion will likely generate more nearby employment opportunities for Lexington residents which in turn can only solidify the value of the Town's residential tax base.

Appendix 1

The following data was derived from Exhibit 6-4 Typical Impact of Commercial Uses on Various Public Service Categories: Fiscal Impact Handbook Burchell and Listokin, Chapter 6 Proportional Valuation Fiscal Impact Method.

Service Category	Percent Range	Mid-Point, %
General Government	4 to 6	6
Public Safety	35 to 90	75
Public Works	10 to 20	15
Health and Welfare	1 to 3	2
Recreation and Culture	1 to 3	2

In the report, the general Public Safety category was divided into two categories; police, and fire services. It is important to note that in the above referenced handbook commercial development is divided into two major categories with retail uses generating as much as three times the cost per square foot as office / research use. The upper end of the range is essentially designed to model the impact of large retail shopping centers and the low end the non-retail activities. Given the non-retail nature of the proposal and the fact that it is essentially an addition to an existing commercial area we applied the low end of the estimated service range i.e. 35%. Even at this level, it is likely that the above model overestimates the annual service cost since it does not take into account private security personnel, modern fire suppression and monitoring systems, and most importantly the established nature of the project area. Further, all required bi-annual safety inspections are covered in full or in part by inspection fees and are not reflected in the model.

As noted in the Fiscal Impact Handbook, “the analyst must temper his distribution of aggregate municipal costs with the kinds of services provided locally. He must also take into account the potential assumption of typically public services by the private facility”

In the instance of the Cubist proposal, its location along a major highway, its location within an existing and established research park; its relative location to an abutting research park; and the fact that it does not create a new police or fire service zone, along with the fact that office /research uses generate considerably less service cost than retail centers are the reasons for applying the lower end of the cost scale to the Cubist proposal.

About the Author

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Education: Master of City Planning
Ohio State University 1971

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Experience:

Mr. Connery has 38 years of community planning experience. He has worked in the Mid West and for the past 36 years in New England. As founding principal of Connery Associates in 1980, he has had over 250 municipal and private clients. Mr. Connery has developed an expertise in municipal zoning, fiscal impact analysis, and project permitting. His professional assignments have included numerous downtown redevelopment projects, community master plans, zoning studies, and cost of development / fiscal impact studies.

Working with Goody Clancy and Associates in 2001 he completed and had adopted the Zoning Plan for Eastern Cambridge with the associated fiscal impact analysis. Mr. Connery's current private sector projects include various residential and commercial fiscal impact studies in Massachusetts including the Mashpee Commons, the Natick Collection in Natick, expansion of the South Shore Mall in Burlington, and life style shopping centers in Dedham, Lynnfield, Burlington, and Westwood Massachusetts. Further, Mr. Connery has also recently prepared fiscal analyses for senior living facilities in Lynnfield, Braintree, Sharon and Dedham Massachusetts. He has also prepared numerous fiscal impact studies for various market rate residential developments, 40B developments, and three 40R developments throughout the Commonwealth; and he is currently preparing comprehensive zoning amendments and fiscal studies for Woburn, Melrose, Wareham and Burlington Massachusetts.

With Judi Barrett (principal author) of Community Opportunities Group he has assisted in the development of a 42 community case study regarding the relationship of school aged children and multi-family housing and the resulting fiscal impacts. Mr. Connery has also taught one-semester courses in urban planning at the University of Massachusetts at Boston and at Boston University, and has been a guest lecturer at both Harvard and Tufts University Graduate School on a number of occasions. He has been employed as an expert land use and zoning witness before the Land Court, Housing Appeals Committee and Superior Court for both public and private clients. He is a past president of the Massachusetts Consulting Planners Association and an active non-professional member of the American Institute of Archaeologists.

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